

Remarks on Tax Reform

May 4, 2009

All right. Good morning, everybody. I hope you all had a good weekend.

Let's begin with a simple premise: Nobody likes paying taxes, particularly in times of economic stress. But most Americans meet their responsibilities because they understand that it's an obligation of citizenship, necessary to pay the costs of our common defense and our mutual well-being.

And yet, even as most American citizens and businesses meet these responsibilities, there are others who are shirking theirs. And many are aided and abetted by a broken tax system, written by well-connected lobbyists on behalf of well-heeled interests and individuals. It's a Tax Code full of corporate loopholes that makes it perfectly legal for companies to avoid paying their fair share. It's a Tax Code that makes it all too easy for a number—a small number of individuals and companies to abuse overseas tax havens to avoid paying any taxes at all. And it's a Tax Code that says you should pay lower taxes if you create a job in Bangalore, India, than if you create one in Buffalo, New York.

Now, understand, one of the strengths of our economy is the global reach of our businesses. And I want to see our companies remain the most competitive in the world. But the way to make sure that happens is not to reward our companies for moving jobs off our shores or transferring profits to overseas tax havens. This is something that I talked about again and again during the course of the campaign. The way we make our businesses competitive is not to reward American companies operating overseas with a roughly 2-percent tax rate on foreign profits, a rate that costs tens—that costs taxpayers tens of billions of dollars a year. The way to make American businesses competitive is not to let some citizens and businesses dodge their responsibilities while ordinary Americans pick up the slack.

Unfortunately, that's exactly what we're doing. These problems have been highlighted by Chairmen Charlie Rangel and Max Baucus, by leaders like Senator Carl Levin and Congressman Lloyd Doggett. And now is the time to finally do something about them. And that's why today I'm announcing a set of proposals to crack down on illegal overseas tax evasion, close loopholes, and make it more profitable for companies to create jobs here in the United States.

For years, we've talked about ending tax breaks for companies that ship jobs overseas and giving tax breaks to companies that create jobs here in America. That's what our budget will finally do. We will stop letting American companies that create jobs overseas take deductions on their expenses when they do not pay any American taxes on their profits. And we will use the savings to give tax cuts to companies that are investing in research and development here at home, so that we can jumpstart job creation, foster innovation, and enhance America's competitiveness.

For years, we've talked about shutting down overseas tax havens that let companies setup operations to avoid paying taxes in America. That's what our budget will finally do. On the campaign, I used to talk about the outrage of a building in the Cayman Islands that had over 12,000 businesses claim this building as their headquarters. And I've said before, either this is

the largest building in the world or the largest tax scam in the world. And I think the American people know which it is. It's the kind of tax scam that we need to end.

And that's why we are closing one of our biggest tax loopholes. It's a loophole that lets subsidiaries of some of our largest companies tell the IRS that they're paying taxes abroad, tell foreign governments that they're paying taxes elsewhere, and avoid paying taxes anywhere. And closing this single loophole will save taxpayers tens of billions of dollars, money that can be spent on reinvesting in America. And it will restore fairness to our Tax Code by helping ensure that all our citizens and all our companies are paying what they should.

Now, for years, we've talked about stopping Americans from illegally hiding their money overseas and getting tough with the financial institutions that let them get away with it. The Treasury Department and the IRS, under Secretary Geithner's leadership and Commissioner Shulman's, are already taking far-reaching steps to catch overseas tax cheats, but they need more support.

And that's why I'm asking Congress to pass some commonsense measures. One of these measures would let the IRS know how much income Americans are generating in overseas accounts by requiring overseas banks to provide 1099s for their American clients, just like Americans have to do for their bank accounts here in this country. If financial institutions won't cooperate with us, we will assume that they are sheltering money in tax havens and act accordingly. And to ensure that the IRS has the tools it needs to enforce our laws, we're seeking to hire nearly 800 more IRS agents to detect and pursue American tax evaders abroad.

So all in all, these and other reforms will save American taxpayers \$210 billion over the next 10 years, savings we can use to reduce the deficit, cut taxes for American businesses that are playing by the rules, and provide meaningful relief for hard-working families. That's what we're doing. We're putting a middle class tax cut in the pockets of 95 percent of working families, and we're providing a two—\$2,500 annual tax credit to put the dream of a college degree or advanced training within the reach for more students. We're providing a tax credit worth up to \$8,000 for first-time home buyers to help more Americans own a piece of the American Dream and to strengthen the housing market.

So the steps I am announcing today will help us deal with some of the most egregious examples of what's wrong with our Tax Code and will help us strengthen some of these other efforts. It's a downpayment on the larger tax reform we need to make our tax system simpler and fairer and more efficient for individuals and corporations.

Now, it will take time to undo the damage of distorted provisions that were slipped into our Tax Code by lobbyists and special interests, but with the steps I'm announcing today, we are beginning to crack down on Americans who are bending or breaking the rules, and we're helping to ensure that all Americans are contributing their fair share.

In other words, we're beginning to restore fairness and balance to our Tax Code. That's what I promised I would do during the campaign, that's what I'm committed to doing as President, and that is what I will work with members of my administration and Members of Congress to accomplish in the months and years to come.

Thanks very much, guys.

NOTE: The President spoke at 11:39 a.m. in the Grand Foyer at the White House. In his remarks, he referred to Secretary of the Treasury Timothy F. Geithner.

Categories: Addresses and Remarks : Tax reform.

Locations: Washington, DC.

Names: Baucus, Max Sieben; Doggett, Lloyd A., II; Geithner, Timothy F.; Levin, Carl; Rangel, Charles B.; Shulman, Douglas H.

Subjects: Budget, Federal : Deficit; Budget, Federal : Fiscal year 2010 budget; Business and industry : Domestic investment, proposed tax breaks for; Business and industry : Global competitiveness; Economy, national : Economic concerns; Economy, national : Strengthening efforts; Education : Postsecondary education :: Tax credits, expansion; Employment and unemployment : Job creation and growth; Housing : First-time home purchase, tax credit; Science and technology : Research and development; Taxation : Tax Code :: Reform; Taxation : Tax relief; Treasury, Department of the : Internal Revenue Service; Treasury, Department of the : Secretary.

DCPD Number: DCPD200900324.